PRESIDENTIAL ADDRESS

BY

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AT 87TH ANNUAL GENERAL MEETING OF THE

INDIAN SUGAR MILLS ASSOCIATION

ON 17TH DECEMBER, 2021

AT NEW DELHI

Respected

Secretary, Department of Food & Public Distribution,

Senior Officials from the Government,

My fellow members of the Indian Sugar Mills Association,

Friends from National Federation of Cooperative Sugar Factories Ltd. and other Associations,

Associate members from the trade, machinery manufacturing and ethanol sector, and our friends from the media

Ladies and Gentlemen,

1. On behalf of the Indian Sugar Mills Association, it is my pleasure and honour to welcome you all to the 87th Annual General Meeting of our Association. Last year, we could not hold our AGM physically because of the pandemic restrictions, but now that most of us are vaccinated and we are maintaining social distancing and various other protocols laid down by the Government, we decided to have a physical meeting this year. It is therefore, our pleasure to see all of you once again.

2. It is an honour for us in ISMA to have amongst us the

Secretary, Department of Food and Public Distribution, Mr. Sudhanshu Pandeyji, who has very kindly agreed to inaugurate our AGM and also kindly address all of us today. We are very grateful Sir, that you could take out time from your busy schedule to be with us and guide us today.

3. Most of our Committee meetings this year were held virtually, except for the last one in October, which we had physically, and that gave us the confidence to hold our AGM today physically.

4. Sir, thanks to the several steps taken by the Government in the last few years, to help the industry to reduce the surplus sugar by way of exports as well as diversion into production of ethanol, the sugar industry is on the path of revival. Last year, when we held our AGM in December 2020, we were under tremendous financial stress because we had opened the season with a very high opening balance of 10.7 million tons of sugar and were expecting a big surplus production again in 2020-21 sugar season.

5. We feel that there are a few policy issues, which still need to be addressed by the Government, to ensure that the sugar industry can become more competitive globally and also grow to its fullest potential, without much need to

keep going back to the Government for financial assistance. Accordingly, Sir, we have the following submissions to make before you for your kind consideration:

B. SUGARCANE PRICING POLICY

6. The biggest problem that we continue to face is the unsustainable sugarcane pricing policy in our country. It is not only very different to the other sugar producing nations, but puts us at a continuous disadvantage, and makes us uncompetitive in the global market.

7. We have been submitting our calculations to the Government that the return to the farmers from sugarcane is the highest as compared to any other crop in the country. This has also been confirmed in almost all its reports by the CACP, wherein they have said that the return from sugarcane is anywhere between 50 to 100% higher than any other competing crop which the farmers are growing in India.

8. Sir, you are aware that the A2+FL cost includes all the costs incurred by the farmers, and in addition to that also accounts for an imputed value for the farmer’s family labour.

9. The Hon'ble Prime Minister as well as the Government has in various forums, including in the Parliament said that the target of the Government is to ensure that the farmers get 50% more than the A2+FL cost for all the crops. However, in the case of sugarcane, the FRP fixed by the Government of India works out to 100% more than the A2+FL cost, calculated by the CACP. In the case of other competing crops like paddy, pulses, oil seeds, jowar, cotton, maize, groundnut etc., the MSP fixed by the Government is about 50-65% above the A2+FL cost, except for wheat, barley and gram where it is about 75-100% more.

10. Sugarcane farmers, not only have an advantage of higher return from the sugarcane that they produce but are also assured of a buyer in the form of sugar factories and are fully assured of getting the price fixed by the Government and paid by the sugar mills. This is not the case for any other crop. Additionally, sugarcane is a sturdier crop and can withstand some weather failures much better than other crops.

11. The much better return and the assurance of a buyer and the price, has resulted in the sugarcane farmers always being interested in growing sugarcane, even if there is a delay in the payment of their price. This has resulted in surplus sugarcane and surplus sugar continuously in the

last 10-11 years, because of which we have to export the surplus into the international market. Unfortunately, our sugarcane price is 50-60% higher than the sugarcane prices in the other exporting nations like Brazil, Thailand, EU, Australia etc., because of which we become uncompetitive in the global market and have to seek financial assistance from the Government in the form of export subsidy.

C. NEED FOR REVENUE SHARING FORMULA ALONG WITH PRICE STABILISATION FUND.

12. As per the study conducted by the International Sugar Organization (ISO) in June 2019, only 6 out of the 22 major sugar producing nations have a fixed sugarcane pricing policy. The other 16 nations follow a pricing policy for sugarcane, which is directly linked to the revenue realized by the sugar mills.

13. The 6 countries which do not have a revenue sharing formula includes countries like Egypt, Pakistan and China, who are not regular exporters in the global market. The major exporters like Brazil, Guatemala, Thailand, Australia, EU, Russia etc. follow the revenue sharing formula and pay around 62-66% of the revenue realized from sugar and by-products as price of sugarcane. As

compared to that, the FRP or the SAP that we have to pay in India is around 90% or sometimes even 95% of our revenue realization. This makes us completely uncompetitive in the global market and also does not allow us any margin or adequate revenue to be able to take care of our other liabilities and payments including Bank loans etc.

14. The net result is very obvious. The Indian sugar industry is burdened with very high sugar stocks, which has been seen continuously from 2018-19 onwards. That blocks our working capital and impacts our capability to pay sugarcane price to the farmers on time, resulting in huge cane price arrears.

15. We are otherwise, the most efficient sugar producing industry in the world. We become uncompetitive only because of the sugarcane pricing policy and high sugarcane prices being fixed, without linking it to the revenue realized by the sugar industry.

16. Several committees have been appointed by the Government in the last several years who have all continuously recommended for a revenue sharing formula. They have either recommended for determining the cane price payable by the sugar mills at 70% of revenue from

sugar and by-products or at 75% of revenue from sugar alone. Even though this suggested formula is higher than the world average of 62-66% of revenue, we have given our acceptance to the same for the sake of our sugarcane farmers in India. However, any percentage higher than the above recommended percentages would be detrimental to the sugar industry and would be unsustainable.

17. Sir, you would be aware that CACP has also recommended for such a revenue sharing formula in the last 5-6 years and has also added that to bridge the gap between the FRP and the cane price as per the formula, a price stabilization fund (PSF) should be introduced. CACP has also been recommending that the PSF be created and maintained by the Government of India, for use in such bad years, where the sugar prices are depressed.

18. You would also be aware that Niti Aayog in its report in April 2020, has also recommended for the revenue sharing formula along with the price stabilization fund. Last year, a multi-Ministry Committee was set up, which included some sugar producing States, to examine such a mechanism of revenue sharing formula along with the price stabilization fund. I am sure the Committee would be submitting its recommendations very soon to the Government to take a decision on the matter.

19. Our Food Secretary was also in the Ministry of Commerce, and has represented India before the WTO, with regard to the complaints of Brazil, Australia and Guatemala on the Indian sugar exports and the Indian sugarcane pricing policy. The complaint with regard to the sugarcane pricing policy is that it is not as per the WTO rules and therefore we should examine the same and make amendments. We have taken legal advice on the revenue sharing formula and price stabilization fund, as recommended by the CACP and Niti Aayog and have got confirmation that these would be as per the WTO rules. We therefore, request you for your kind consideration of the same.

D. ETHANOL PRODUCTION AND BLENDING WITH PETROL

20. The Government, under the personal guidance of the Hon'ble Prime Minister, Mr. Narendra Modi, has very beautifully rolled out the ethanol blending program in India, because of which from around 1-2% blending with petrol in 2014, we are targeting to blend 10% in the current year. Such a major achievement in just about 6 years would not have happened without the very positive policy decisions and the incentives given by the Government for augmenting ethanol production capacities in the country. The multiple ethanol procurement prices

linked to the feedstock used, has been a very important policy decision to fuel this program.

21. The Indian sugar industry has responded very well to the call of the Hon'ble Prime Minister, and we are very confident that in the current year, we should be able to achieve 10% average blending in the country. Against the tender invited by the OMCs at the end of October for 2021-22 ethanol supply year, for 459 crore litres, the industry offered to supply 414 crore litres. However, the OMCs have accepted 317 crore litres and have floated another tender for 142 crore litres again, against which the ethanol manufacturers have offered 88 crore litres again. As has been seen in the past, as the sugarcane crushing picks up, and sugar mills are more confident about the quantum of sugarcane that would be available for them, they offer more quantities in the tenders in January and February.

22. It is important to realize that the sugarcane is harvested by the farmers in about 5-6 months, and therefore the availability of our raw material to produce ethanol is basically between end of November to middle of May every year. During this period, the sugar industry is always willing to produce and supply maximum quantity of ethanol, but if the offtake by the OMCs is not as per contracts or as committed by them, the sugar mills are

then forced to reduce their capacity utilization. Every distillery will have a certain storage capacity for molasses or ethanol within their factories. Also, more quantities are being committed to be produced from sugarcane juice. Therefore, during these 5-6 months, the OMCs need to ensure that they lift all the ethanol that is getting contracted for.

23. Unfortunately, in the last year, we faced tremendous problems in lifting of ethanol as well as in emptying of our truck tankers at the depots of the oil companies, especially during the sugarcane crushing period. We did raise our concerns from January 2021 itself, but most of the concerns were addressed with delay, because of which we could not produce ethanol as planned and as contracted for. The OMCs did want more quantities of ethanol later in the year but after May, we were unable to produce more quantities than already planned or contracted for, because there is no scope of getting more feedstock thereafter. Therefore, it is extremely important that the oil companies are fully geared up with their storage capacities and decantation facilities in all the depots where they signed contracts.

24. Now that contracts for a full 10% would be signed in almost all the depots in the country, any scope of reallocation of contractual quantities from one depot to

another by the oil companies, which was being done in the previous years, may not be possible anymore. Therefore, our request to the Ministry of Petroleum and Natural Gas and OMCs through you Sir, is that they should be fully committed to the contract they have signed, and they should accept all the ethanol quantities that we supply, including timely decantation of truck tankers at their depots.

E. SHORTLISTING OF ETHANOL PLANTS BY OMCs.

25. We in the sugar industry, are highly aggrieved by some recent decisions taken by the OMCs, in which they are discouraging ethanol produced from sugarcane and molasses, as also discouraging investments in ethanol production capacities in the sugarcane and sugar producing regions of the country. We have made a representation to the Hon'ble Prime Minister as well as to the concerned Ministers and the Secretaries of the Government on how the EOI floated by the OMCs on 27th August 2021, is highly discouraging to the Indian sugar industry. If the disparity and the consequent discouragement is not rectified immediately, we seriously fear that the ethanol blending program which has been developed so beautifully in the last 5-6 years, will get derailed and production capacities, as desired, will not be

set up for meeting the 20% ethanol blending target set by the Hon’ble Prime Minister for 2025.

26. The Food Ministry had given in principle approval to 800-900 ethanol projects across the country, under their interest subvention scheme. However, the OMCs invited another set of bidders to create ethanol production capacity, and have shortlisted around 135 ethanol projects. These are mostly grain based. However, the worry is that only half of those 135 projects are approved by the Food Ministry.

27. The problem is that the “Guidelines cum SOP” of Banks for lending to ethanol projects, requires both the approval of the Food Ministry as well as shortlisting by the OMCs for long term bipartite agreement. Therefore, currently there would be not more than 65-70 ethanol projects which would be approved by both. The problem would worsen if some of them are not found credit worthy by the Banks and therefore will not get Bank loans. Capacity creation for ethanol production in the country will be seriously harmed.

28. The worry is also that oil companies are not signing long term bipartite contracts with the existing ethanol producers

and sugar mills, and yet they are putting us at a lower priority to the new ethanol plants which have been shortlisted by the OMCs for long term supply contracts.

29. Therefore, to rectify the same, we feel the oil companies should issue another EOI, which should also allow the existing ethanol manufacturers and sugar mills to participate for long term purchase agreements. Similarly, the Food Ministry also may like to consider reviewing those proponents amongst the 800-900 ethanol projects approved by them, who have not achieved any major milestone and therefore are only blocking the space without creating capacities. This should be done immediately to ensure the ethanol program is not derailed.

F. INCREASE IN THE MINIMUM SELLING PRICE OF SUGAR

30. The decision to increase the Minimum Selling Price of sugar (MSP) from Rs. 31 per kilo fixed in February 2019 is for some reason not getting finalized by the Government. You will appreciate that in the last almost 34 months since the MSP was increased to Rs. 31 per kilo, the price of sugarcane has been increased by the Government of India twice, and the general inflation too has impacted our other inputs costs, including the spare parts where the

price has increased by up to 20-30%. Therefore, our cost of production has increased quite substantially in this period.

31. At the new FRP of Rs. 290 per qtl. of sugarcane for a 10% sugar recovery, our cost of production of sugar works out to around Rs. 36-37 per kilo for the country as a whole. The ex-mill sugar prices which had improved in the last month to around Rs. 34-36 per kilo, have again started falling. In some parts of the country, sugar is sold again at around Rs. 31.50 per kilo or so. We fear that as the season progresses, there will be pressure on the sugar mills to pay the cane price to the farmers and thereby they may face a liquidity crunch, wherein, there may be a fall in the ex-mill prices even below the current prevailing levels.

32. It is also important to note that if our cost of production is about Rs. 36-37 per kilo, but ex-mill sugar prices are much below that, it becomes more and more difficult for us to pay to the farmers on time and at the same time, ensure that we meet our other liabilities and payment requirements, including Bank loan repayments. The BJP Government, in July 2018, had notified the Sugar Price (Control) Order, under the Essential Commodities Act, and

therein had provided that the Government would fix and revise minimum selling price of sugar as per prevailing circumstances and duly considering any increase in the input costs.

33. Therefore, through you Sir, we would like to once again request the Government to take a decision as quickly as possible to increase the MSP of sugar to Rs. 36-37 per kilo and thereby protect the industry against any major fall in the sugar prices. This will ensure that the sugar mills are able to recover their costs, have adequate liquidity and are able to pay to the sugarcane farmers on time.

G. EXPORT OF SUGAR

34. Thanks to the continuous support given by the Government of India and by the senior officials of the Food Ministry in the last 3 years, through positive and timely export policies, including direct export subsidy, the sugar industry has been able to export around 165 lac tons of sugar in the last 3 sugar seasons. Had the Government not announced positive schemes and the export assistance, it would have been impossible to export such a large quantity.

35. It is only thanks to the export of such a large quantity of sugar that we have been successful in reducing our opening stocks of sugar for 2019-20 season, from 145 lac tons to around 82 lac tons for 2021-22 season. However, we should not forget that this reduction in opening stock is also because the industry has been successful in diverting around 28 lac tons of sugar into ethanol in the last couple of years by diverting sugarcane juice and B-heavy molasses away from sugar into production of ethanol.

36. Due to some adverse weather and rainfall in some parts of the world, there is an estimated deficit of around 30-40 lac tons of sugar in the global market in the current sugar season. That had helped the global sugar prices to improve to around 20-21 cents per pound of raw sugar in the last few months. That encouraged the Indian sugar mills to contract around 35 lac tons of sugar exports in the current sugar season.

37. However, with a drop in the crude oil prices, which is expected to impact the ethanol prices too, the world market has reacted, and the global sugar prices have fallen to around 18.5 cents per pound of raw sugar. That has made Indian sugar exports unviable and therefore, sugar mills are currently not contracting for further sugar exports beyond the already contracted 35 lac tons. The Indian sugar industry feels that since there are 9 months

left in the current season, they can wait for the global sugar prices to again improve to such levels, which give them similar or better returns as compared to what they are getting in the domestic market within the country. The general understanding is that if the global sugar prices improve to around 21 cents per pound of raw sugar, there will be interest amongst the sugar mills in India to contract for further sugar exports.

H. ACKNOWLEDGEMENTS

38. Before I end my Presidential Address, I wish to acknowledge with a deep sense of gratitude the positive policy decisions and financial assistance that the sugar sector has received continuously from the Hon'ble Prime Minister Shri Narendra Modi. His efforts in driving the Ethanol Blended Program has helped in the structural change in the Indian sugar industry.

39. I wish to also thank the Hon'ble Cabinet Ministers of the Government - Shri Nitin Gadkari, Shri Piyush Goyal, Shri Hardeep Singh Puri, Smt. Nirmala Sitharaman and Shri Dharmendra Pradhan for their continued support.

40. I am very much thankful to Dr. P.K. Mishra, Principal Secretary to Hon'ble Prime Minister, Shri Amit Khare,

Adviser to PM and all senior officials of the PMO for their guidance.

41. I would like to specially thank the Secretaries to the Government of India, especially you Sir, Shri Alok Tandon, Shri Tarun Kapur, and Shri Debashish Panda for all the encouragement, their patience and positive attitude towards our problems and demands.

42. I am also thankful to Shri Subodh Kumar Singh, Joint Secretary (Sugar) and his team including Shri Vivek Shukla, Shri Sangeet Singla and Shri Jitendra Juyal in the Department of Food and PD and other officials of the Ministry and Sugar Directorate for their help and assistance.

43. I am thankful to Shri Sunil Kumar, the Joint Secretary (Petroleum) and his team including Shri Kapil Verma, Shri Peeyush Agarwal and Shri Manish Sarda for their help and guidance.

44. I thank Prof. Ramesh Chand, Member, Niti Aayog and Dr. Naveen Prakash Singh, Chairman, CACP for their understanding of our problems and their positive recommendations for the sector.

45. I would thank the CMDs and senior officers of the Oil Marketing Companies viz. IOC, BPCL and HPCL for their cooperation, smooth procurement and assistance in the ethanol blending program.

46. I am thankful to Shri Jaiprakash Dandegaonkar, Chairman, National Federation of Cooperative Sugar Factories Ltd., and Shri Prakash Naiknavare, Managing Director, National Federation of Cooperative Sugar Factories Ltd. for their help and assistance extended to us from time to time.

47. A special thanks to Shri Adhir Jha, CEO and MD of Indian Sugar Exim Corporation (ISEC) and his team of officials, for their continued contribution for the welfare of the Indian sugar industry. I also thank the officers and staff of ISEC for their assistance and support.

48. I wish to record my appreciation of our Past Presidents, including Chairpersons of various Sub-Committees and the Regional Associations for their continued guidance. I would like to make a special mention of my colleagues on the Committee, especially the Vice-President Shri Aditya Jhunjhunwala who has always been available for consultation and advice.

49. I wish to record my appreciation for the hard and dedicated work put in by the officers and staff of ISMA. They are indeed very efficient and are always willing to put in their best efforts. I would specially like to thank Shri Abinash Verma our Director General. He has tremendous knowledge covering all the facets of the sugar industry including ethanol and cogeneration as well as issues relating to FSSAI, Pollution, WTO Rules and Regulations etc. ISMA is indeed fortunate to have him at the helm to manage the affairs of the association.

50. A very special thanks to our friends from the Media for giving the industry positive recognition and support during the entire year.

51. I thank the distinguished guests who have so kindly responded to our invitation. Sir, I thank you for your patience in listening to my rather long speech.

JAI HIND.

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